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# Message Text

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43
ACTION EB-07

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

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P 181110Z NOV 75
FM AMEMBASSY BANGKOK
TO SECSTATE WASHDC PRIORITY 4418

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E.O. 11652: N/A
TAGS: EFIN, EIND, EINV, TH
SUBJECT: FOREIGN INVESTMENT CLIMATE

REF: A) STATE 165596
B) STATE 261921

1. THE RATE OF FOREIGN INVESTMENT IN THAILAND HAS DECLINED DURING THE PAST TWO YEARS. STATISTICS ARE UNRELIABLE AND INCOMPLETE, BUT A GOOD INDICATION OF THE INVESTMENT DROP IS GIVEN IN THE NUMBER OF APPLICATIONS MADE TO THE BOARD OF INVESTMENT FOR PROMOTIONAL PRIVILEGES. DURING THE FIRST NINE MONTHS OF 1975 ONLY 84 APPLICATIONS WERE RECEIVED, NEARLY ALL DOMESTIC, AS COMPARED TO 183 AND 439 DURING THE SAME PERIODS OF 1974 AND 1973. THE DROP HAS CLEARLY BEEN VERY REAL.

2. THE INVESTMENT SLOW-DOWN IS DUE IN PART TO WORLD ECONOMIC CONDITIONS AND IN PART TO SIGNS OF ECONOMIC NATIONALISM, PARTICULARLY THE REVOCATION OF A LARGE FOREIGN TIN CONCESSION. YET, THAILAND'S ECONOMY IS BASICALLY HEALTHY AS COMPARED TO SOME OTHER COUNTRIES IN THE REGION, AND IT SHOULD NORMALLY BE ATTRACTIVE TO INVESTORS. ITS CURRENCY IS STRONG, INFLATION IS UNDER CONTROL, IT HAS A SOLID BASE IN AGRICULTURAL AND MINERAL RESOURCES AVAILABLE FOR EXPORT, AND FOREIGN EXCHANGE RESERVES REMAIN SUBSTANTIAL DESPITE IN-
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CREASED OIL IMPORT COSTS. THE GOVERNMENT'S STATED POLICY FAVORS

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SELECTED FOREIGN INVESTMENT, AND IT OFFERS MANY ATTRACTIVE INCENTIVES. ETHNIC HOMOGENEITY IS AN ADDITIONAL SOURCE OF STRENGTH AND STABILITY. MAIN REASONS FOR THE DROP IN INVESTMENT INTEREST ARE THUS POLITICAL, NOT ECONOMIC.

3. CONFIDENCE SEEMS TO BE RETURNING BUT INVESTORS HAVE CLEARLY BEEN TROUBLED OVER THE PAST YEAR BY UNCERTAINTIES THAILAND FACES IN REPLACING A LONG-ENTRENCHED AND GENERALLY PREDICTABLE MILITARY GOVERNMENT WITH AN UNFAMILIAR CIVILIAN, DEMOCRATIC FORM OF RULE; ITS PROBLEMS HAVE BEEN EXACERBATED BY DEMANDS FOR MORE EQUITABLE INCOME DISTRIBUTION FROM LESS PRIVILEGED CLASSES OF THE SOCIETY IN THE WAKE OF THE 1973 CHANGE OF GOVERNMENT. INITIAL FEAR THAT THAILAND WOULD BECOME THE NEXT DOMINO AFTER THE FALL OF SAIGON HAS GENERALLY DISSIPATED, BUT THERE IS STILL UNCERTAINTY ABOUT HOW THAILAND MAY ADJUST ITS FOREIGN RELATIONS TO ACCOMMODATE ITS NEW COMMUNIST NEIGHBORS, AS WELL AS WORRYABOUT POSSIBLE INCREASED HANOI SUPPORT OF THAILAND'S LONG FESTERING INSURGENCY. IN SHORT, UNTIL RECENTLY FOREIGN COMPANIES HAVE HESITATED TO PUT NEW MONEY INTO THAILAND, WONDERING IF ITS WELL-INTENTIONED FLEDGLING GOVERNMENT, HAMPERED BY VESTED INTERESTS AND CUMBERSOME BUREAUCRACY, WILL BE ABLE TO CONTROL THE COUNTRY'S DESTINY.

4. THE PICTURE SEEMS TO LOOK MUCH BETTER FROM CLOSE UP THAN IT DOES FROM A DISTANCE. MANY OPTIMISTIC FOREIGN BUSINESSMEN RESIDENT IN BANGKOK COMPLAIN THAT THEIR HARDEST TASK IS TO CONVINCE HOME OFFICES THAT THAILAND REMAINS VIABLE. THEY RIGHTLY REPORT THE INTERNATIONAL NEW MEDIA HAVE BEEN OVERLY DRAMATIC IN REPORTING STUDENT DEMONSTRATIONS AND INCIDENTS OF LABOR AND FARMER UNREST, AND EXPLAIN THAT THE KHUKRIT GOVERNMENT, GROWING IN CONFIDENCE AND STRENGTH, RECOGNIZES THE INHERENT PROBLEMS AND IS STARTING TO DO THE RIGHT THINGS TO CORRECT THEM. AS A RESULT, SOME NEW INVESTMENT IS BEGINNING TO COME IN. CONCERNED GOVERNMENT LEADERS HAVE EMBARKED ON A SPEAKING CAMPAIGN AIMED AT RESTORING INVESTOR CONFIDENCE, AND MANY RECOGNIZE THAT THEIR CREDIBILITY WILL FINALLY DEPEND MUCH MORE ON WHAT THEY DO THAN ON WHAT THEY SAY.
WHITEHOUSE

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